Mid January 2024

# Energy Market Insights

Twice Monthly Independent Market Analysis

## ELECTRICITY

### FRONT ANNUAL HITS 2.5-YEAR LOW

UK electricity prices have been falling sharply in recent days – after a briefly moving higher in early 2024 as cold weather, strong demand and weak renewables helped to catalyse a short-lived uptrend – with windy forecasts for the coming weeks, signs of milder conditions on the horizon and falling emission values all leading the market to resume the downward momentum that gathered pace at the end of last year. April '24 Annual Baseload has moved below £74/MWh for the first time, sliding nearly 11% lower over the past two weeks and becoming the cheapest front Annual since June 2021.

April '24 Annual had spiked as high as £88/MWh in the first week of January as freezing conditions enveloped the UK and wind generation slumped, but the risk priced into periods during that upward run quickly dissipated as confidence grew that the frigid conditions would not last long. October '24 and April '25 Annuals have lost 10-11% since the start of the year to just under £74/MWh – practically flat to the front Annual – at the time of writing.

After a blustery couple of weeks to end 2023 UK wind generation declined to an average of 8 GW over the opening couple of weeks in January – down 41% compared to the previous fortnight – although forecasts point towards more unsettled conditions and double-digit wind output across the latter half of this month. Demand has surged more than 15% – partly due to the cold weather but also because multiple bank holidays around the end of the year suppressed power use – leading to a massive increase in gas-fired generation, which has been more than three times higher than during the second half of December so far this year.

The lack of renewables and rising thermal generation have driven strength into short-term prices – pushing values at the front in the opposite direction to longer-term periods – with Day-ahead Baseload spiking above £90/MWh on several occasions, more than double the levels seen late last year. At the time of writing next-day power had been changing hands around £84/MWh, up nearly 30% in the year to date. The upside has been confined to short-term periods as month- and quarter-ahead electricity values have slid by about 11%.

Elsewhere EU carbon prices have seen sinking towards EUR 63/TCO2e – the first time allowances on the continent have been this low since March 2022 – as the return of carbon auctions, weak technical signals and economic malaise pressured the market. EUAs are currently 17% below values seen at the start of 2024 and UKAs have tracked a similar trajectory, having fallen by nearly a fifth, to £33/TCO2e currently. The huge increase of renewable capacity last year – Germany reportedly commissioned a record 17 GW of wind and solar – is likely to be another factor helping to drag carbon lower as thermal generation is set to decline, meaning less demand for allowances from the electricity sector.

Meanwhile month-ahead coal for delivery into northwest Europe surged above $113/tonne – the highest value since early December – in the opening week of the year, moving in tandem with the rest of the energy complex, but has since tumbled back towards $104/tonne.

**UK Annual power prices** (six-month view)

Capacity on the 1.4 GW Viking Link between the UK and Denmark – which only started commercial operations late last year – will be restricted to 800 MW until March 2025.

## EUROPEAN TEMPERATURES

**European temperatures are forecast to rise back to seasonal norms from next week onwards**

## COAL-FIRED GENERATION

**Coal-fired generation accounting for around 4% of the UK generation mix in January to date**

EDF has indicated that it plans to extend the lifetime of four UK-based nuclear power plants – which have a combined capacity of 4.6 GW – beyond the current 2026-28 timeline. The length of any extension will depend on coming inspections and regulatory approval. As a rough guide the company has said that due to the age of the units any increase is likely to be below previously permitted lifetime additions of seven to eight years.

The UK government has unveiled the Civil Nuclear Roadmap – a plan to expand nuclear capacity fourfold to 24 GW by 2050 and to invest £300 million to support the domestic production of reactor fuels. It includes ambitions to develop another GW-scale plant in Suffolk or Somerset, in addition to Hinkley Point C and Sizewell C, which are both 3.2 GW.

## LNG IMPORTS

**LNG imports remain strong with 9 deliveries scheduled into UK ports before end of January**

**KEY POWER INDICATORS:**

| Long-term UK (£/MWh) | | | | Short-term UK (£/MWh) | | | | European power (£/MWh) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Apr '24 Annual | chg | Oct '24 Annual | chg | Month-ahead | chg | Day-ahead index: | chg | Germany Cal '24 | chg | France Cal '24 | chg |
| 75.13 | -11.50 | 76.63 | -9.63 | 72.59 | -12.66 | 84.69 | 45.86 | 84.93 | -6.95 | 80.25 | -8.00 |

**KEY OTHER INDICATORS:**

| Coal ($/MT) '24 | chg | Oil (Brent) $/bbl | chg | UKA '23 (£/TCO2) | chg | EUA '23 (€/TCO2 | chg | EUA '24 (€/TCO2) | chg | EUA '25 (€/TCO2) | chg |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 102.50 | 7.80 | 77.41 | 0.10 | 35.60 | -390.40 | 66.90 | -9.27 | 69.25 | -9.25 | 71.80 | -7.53 |

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## GAS

### LNG HELPS OFFSET COLD SNAP AS GAS

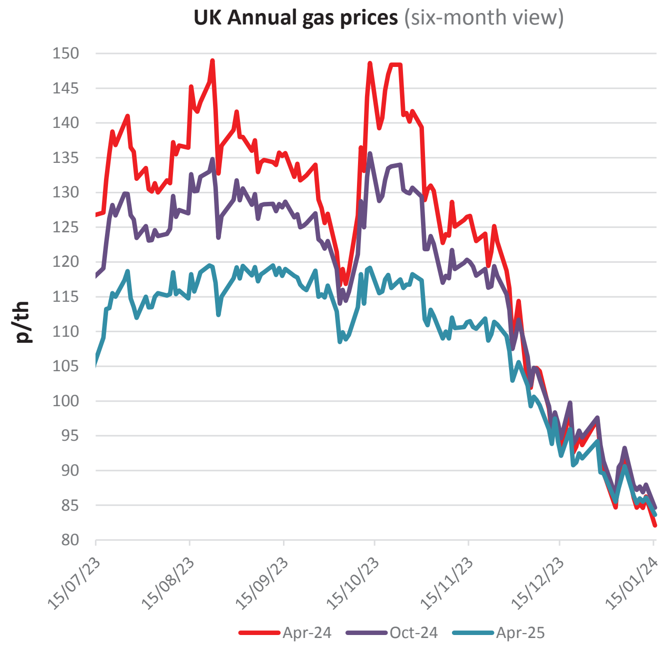
Frosty conditions, mounting tensions in the Middle East along key shipping routes and rising power sector demand all helped to push gas prices upwards in early January, although the uptrend has now run out of momentum as the approach of milder conditions, stronger wind expectations and a busy LNG import schedule have helped to arrest the gains and pull values back down. April '24 Annual gas has fallen below 82 p/th – reaching its lowest level in almost two years and slipping about 4% since the start of 2024 – after peaking as high as 93 p/th in the first week of January amid the plummeting temperatures. October '24 and April '25 Annuals have made more modest losses of about 2% to 85 p/th and 84 p/th, respectively, since the year-start but have come down from early January highs above 90 p/th.

Low temperatures have pushed up domestic demand with overall gas consumption about 5% above the seasonal average so far this year – and up to 29% higher than normal at one point – while a continuation of net exports and a 70% increase in gas-fired power generation have also contributed to pushing up gas use. Although demand has been propped up, a flurry of LNG deliveries – particularly from the US, which has sent at least seven cargoes to the UK already this year – have pressed more supply into the market and helped to mitigate the impact of the chilly conditions and low wind speeds. The volume of gas supplied by the UK's LNG terminals has averaged 71 million cubic metres (mcm) – rising above 100 mcm at least five times – in 2024 to date, a leap of 37% compared to the latter half of December. This has also helped to offset occasional disruption to Norwegian imports.

The surge in LNG supply has not prevented some strength on the short-term market though – Day-ahead gas is trading up 10% since the start of the month – but it has helped to cap gains on the remaining winter months. February '24 gas briefly pushed above 85 p/th – after rising 13% in a couple of days – but has since eased back below 74 p/th, edging down 3% overall in the last two weeks.

Relatively full EU storage has also prevented the demand surge from pushing prices too high with sites now just under 80% full – according to Gas Infrastructure Europe (GIE) – against a five-year average at this time of year of 68%. Although withdrawals have picked up these past couple of weeks – volumes taken from EU stocks have risen more than 60% compared to December – there remains a healthy buffer for the rest of the winter period. On the continent Dutch month-ahead gas – a major EU benchmark – has now dropped below EUR 30/MWh for the first time since 2021, after peaking above EUR 34/MWh earlier in January.

Elsewhere disruption to key oil shipping routes has continued to intensify as Houthi militants in Yemen have maintained attacks on traffic in the Red Sea, while a tanker carrying Iraqi volumes was seized off the coast of Oman and diverted towards Iran. North Sea oil has ticked up 5% in the last two weeks towards $79/bbl because of the tensions, although crude prices remain a long way off peaks above $90/bbl seen in September as economic concerns – particularly in China – continue to act as a counterbalance.



Qatar has reportedly halted at least three LNG cargoes that had been heading towards the Suez Canal and on to Europe due to concerns over Red Sea security. Another two empty vessels that were moving back towards Qatar to re-stock have also stopped moving.

Planned maintenance is restricting Norwegian gas exports to the UK through the St Fergus pipeline network – work that was only announced a day before it started – cutting 6 mcm of capacity until the end of the month.

## BRENT CRUDE

**Brent crude has remained stable despite continued attacks on Red Sea shipping**

## UK UTILITY CONTRACT PRICES

**UK utility contract prices plunge to multi-year lows despite cold weather**

A pipeline that will double the supply capacity from Germany's Brunsbuttel LNG terminal into the onshore grid is set to come online next month. The link – which will have an annual capacity of 15 billion cubic metres (bcm) – was originally expected to be commissioned at the end of the year.

EET Hydrogen – a subsidiary of India-based conglomerate Essar – has received regulatory approval to develop a 350 MW low carbon hydrogen plant in Cheshire. The company claims this will be the UK's first large-scale hydrogen production facility. Hydrogen produced at the site will be marketed to local industrial and power generation companies looking to transition away from the use of fossil fuels – including natural gas – with commissioning planned in 2026.

## GAS STORAGE

**European gas storage withdrawals have accelerated in the last few days but are still at 79% (10% higher than 5-year average)**

**KEY GAS INDICATORS:**

| Long-term UK (p/th): | | | | Short-term UK (p/th): | | | | European gas (€/MWh): | | Crude Oil: | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Apr '24 Annual | chg | Oct '24 Annual | chg | Month-ahead index: | chg | Day-ahead index: | chg | TTF 2024: | chg | Oil (Brent) $/bbl: | chg |
| 82.10 | -7.65 | 84.65 | -6.67 | 75.70 | -6.19 | 76.82 | -2.35 | 33.10 | -0.30 | 77.41 | 0.10 |

All changes (chg) are compared to last report

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